process because the larger the number of markets from which revenues can be obtained for the same information, the greater are the incentives to create that information. Consumers may also benefit from greater diversity in the outlets through which information is made available.

There are many examples of the dissemination of the same information through multiple distribution channels. Motion pictures originally produced for domestic theatrical release are licensed to pay-per-view and premium cable program services, sold or leased on videocassettes, carried by the broadcast networks, licensed to individual television stations, and released abroad through the same media. Novels are sold initially in hardcover and subsequently in paperback. Journal publishers receive revenues from subscriptions, the sale of reprints, and license fees for photocopying. Legal research materials originally distributed in print form may also be sold on CD-ROMs or through on-line services.

All of these are examples of the exploitation of a work in the same "form." However, information need not be used in this way. A second type of efficiency may occur when a work created for one medium is modified in some manner and marketed through another medium.[2] Popular music may be produced for videos as well as for sound recordings. Successful novels may be adapted to motion pictures, live drama, or television series. And, to show that synergies can occur in either direction, successful motion pictures may spawn novels based on their screenplays.

[2] The subsequent use is sometimes referred to as a "derivative work."

The fact that there may be multiple distribution media for the same information has an important implication. Not only are per-user costs reduced when the same information is reused, but the nature and amount of the information that is produced are also likely to be affected. Whether and how a sound recording is made may depend on its potential exploitation in video form. Whether and how a textbook is produced may depend on the potential for ancillary uses of the same information -- for example, through the sale of CD-ROMs.

A third form of efficiency occurs when the value of one piece of information is enhanced because other types of information are also available, either through the same or a different distribution channel. In some cases, it may be unprofitable to offer some information unless its owner can be assured that other (complementary) information will also be forthcoming. The best way to ensure that the complementary information is available is often for both pieces to be provided by the same entity.

A legal casebook may be more valuable to users, and hence more profitable to offer, if it is linked to treatises on the same or related subjects. An economics textbook may be more valuable if it is sold with separately published study guides. A theatrical musical may be more valuable if its production is accompanied by a sound recording of the score. A motion picture may be more valuable if a novel based on the film is released simultaneously.

In each of these cases, the profits from producing one type of information are enhanced if other information is also available to users. Although independent suppliers may provide the complementary information, in some circumstances only the creator of the original information may have the incentives to ensure that both of the complements are available to users.

An owner who controls the various forms of distribution of a given piece of information can often more easily coordinate these uses than can separate owners of the different distribution channels.[3] In cases where coordination is improved by common ownership, consumers of information are the beneficiaries because they are then likely to receive enhanced information, complementary packages of information, or both.

III. Information Provision and Joint Production by Newspapers and Broadcast Stations

A. The Scope For Efficiencies Is Expanding

There have always been potential efficiency benefits from the joint operation of a newspaper and a broadcast station in the same geographic area. Many of the stories covered by the newspaper will also appear on the station's news reports. Both media report the same local weather and sports results. Both cover the same local elections and social issues. It would seem natural for a joint owner to reduce costs by distributing information collected by the employees of one medium through the other as well. In addition, there would appear to be benefits from developing certain types of information because it could be distributed through more than one medium, and from developing

[3] See Section IV below for an explanation of the efficiencies that result when joint production is carried out within a single firm.

information for one medium that is complementary to information developed for the other.

In fact, however, there appears to have been relatively little such activity with respect to newspapers and television stations in the same geographical areas, whether or not they have been jointly owned. It is difficult to determine the precise reasons for the limited ways in which jointly-owned newspapers and television stations have exploited synergies from common ownership. One possibility is the culture clash that can sometimes occur between the two media, in part the result of the contrast between the greater immediacy and visual nature of the information provided through the electronic media and the greater depth of information provided through print. Another is that the potential efficiencies from joint operation were not very great in the past.

This situation appears to be changing. Although some of the changes have involved greater cooperation between newspapers and broadcast stations in their "traditional" roles, the greatest cooperation appears to be occurring in new media, such as the Internet. There are several reasons for this.

First, the "newness" of the Internet may itself contribute to dissolving the cultural barriers between electronic and print journalists. In particular, the Internet can provide a hybrid of newspaper and television services and, if fully exploited, can expand upon the content of the traditional news outlets. The Internet offers news clips with high-quality video streams as well as in-depth daily newspaper stories, and it provides access to a searchable archive of news from multiple broadcast and print sources. The hybrid characteristics of the Internet preclude both broadcasters and newspaper editors from claiming it as a portion of their traditional domains, and thus each may be less reluctant to participate with the other.

Second, the hybrid nature of the Internet requires skills that neither broadcasters nor print journalists alone possess. The Internet offers the immediacy of broadcasting without the space and time limitations of that medium. Not only does the Internet permit information to be provided in real time, it also allows stories of great length and depth. Indeed, in this regard, it goes even further than newspapers because the information provided can be linked to a vast store of other information, a capability beyond traditional newspapers.

This means that the benefits of cooperation are likely to be greater in the new medium than the benefits of cooperation between traditional newspaper and broadcast operations. In effect, each group may realize that it needs the cooperation and expertise of the other in order to produce information that is attractive to users. Indeed, the ultimate success of an Internet product may involve the blending of material from both print and video sources to produce content that is significantly different from either. Such productions will require reporting, editing, and other journalistic skills that neither medium's professionals currently possess.

Finally, although the cultural barriers between the electronic and print media may be as great as before, the gains from cooperation may now be viewed as greater than before the emergence of the Internet. As a result, managers may now be demanding cooperation between previously separate activities, cooperation that may only reluctantly be provided.

B. The Case of Chronicle Publishing[4]

Chronicle Publishing has historically operated *The San Francisco Chronicle*, a daily newspaper, and KRON-TV, a network-affiliated, over-the-air television station, largely independently. In the early 1990s, *The San Francisco Chronicle* and KRON-TV began to offer separate Internet Web pages called SFGate and KRON Online, respectively. KRON-TV also began to offer BayTV, a 24-hour news channel that was carried on San Francisco-area cable systems and that relied significantly on the resources of KRON-TV.

In 1997, SFGate, KRON Online, and a Web page produced by BayTV were melded into a single operation, now known as SF Gate, or The Gate. One reason for the consolidation was simply to exploit certain economies of scope in the operations of the separate Web pages. However, cost reductions are only a part, and probably a small part, of the overall benefits of combining the separate Web page operations.

The principal benefits, which are still in the early stages of exploitation, are the ability to share information among, and develop complementary content for, the Web pages of the daily newspaper, television station, and cable television news service that are accessible through this new site. Thus, for example, information collected by the staff of *The San Francisco Chronicle* may appear on The Gate either via the newspaper's Web page or via KRON-TV's Web page, in

[4] Most of the information in this section was obtained through interviews with employees of Chronicle Publishing or its subsidiaries.

similar or different form. Similarly, "readers" of the Gate may see material that has been developed originally for use in KRON-TV newscasts. These are examples of the efficiencies described above, whereby information developed for one medium can be used by another because of its public good characteristics.

However, The Gate is increasingly becoming more than a simple amalgam of the content of the previously separate SFGate and KRON Online Web sites. Rather, certain stories are being developed simultaneously by *The San Francisco Chronicle* and KRON-TV for use not only by the daily newspaper and the television station but also by The Gate.[5] Stories that might not otherwise be covered, or would be covered in a different manner, are having their coverage affected by the fact that they can be exploited by a combined Website. And some of the material that appears on The Gate is developed by its own editorial staff to complement stories that appear in the *Chronicle* and on KRON-TV.

Importantly, these developments are creating a feedback to the operations of the newspaper and television station. The cooperation engendered by the economics of the Internet site is apparently creating synergies not previously exploited between *The San Francisco Chronicle* and KRON-TV. For example, weather information developed for KRON-TV is now also published in the *Chronicle* where in the past the newspaper employed an independent weather service. This illustrates the reduction in costs from using the same information in

[5] This arrangement occasionally takes the form of joint decisions to develop a particular story, but more often it involves each of the outlets informing the other about the stories it is developing so that its partner can develop complementary material if it chooses to do so.

more than one medium. A second illustration arises where the *Chronicle* and KRON-TV have both developed the same story at the same time. As a result, readers of the newspaper can see live footage and interviews on the television station while KRON-TV viewers can turn to the newspaper for in-depth reporting on the story they have seen on television. Finally, regular meetings in which the television station and newspaper managers discuss the stories they expect to be covering have become routine, facilitating cooperative and complementary newsgathering that would not otherwise be possible.

Thus, there is evidence that the efficiencies discussed in Section II are now occurring. Preexisting information is being retransmitted as well as being modified and repackaged for dissemination through new channels, and new information is being developed by each of the media to complement information provided by the others. Thus, the Chronicle case study provides strong evidence that newspaper-broadcast station common ownership promises substantial benefits to consumers.

C. Other Examples of Television-Newspaper Cooperation[6]

Chronicle Publishing is not the only company that is taking advantage of the resources of both newspaper and television operations in offering new media services. For example, the Tribune Company has taken advantage of its ownership of television and radio stations and a daily newspaper in Chicago. *The Chicago Tribune* and its WGN television and radio stations provide

[6] The information in this section was obtained from public reports.

newsgathering resources for ChicagoLand Television News (CLTV), the newspaper's 24-hour cable news channel. The *Tribune* and CLTV share a newsroom that also serves as a studio for CLTV. In addition, *The Chicago Tribune* has cross-promoted and created multimedia joint advertising packages for CLTV, The *Tribune*, WGN-TV, and WGN radio.[7]

Most other efforts to combine resources from newspaper and broadcast station operations involve joint ventures rather than common ownership, presumably because of the FCC's ban on the formation of new broadcast station-newspaper combinations.[8] Although, as discussed in Section IV, such joint ventures may be less efficient than joint ownership, their existence provides evidence of the potential value of newspaper-broadcast station synergies in fostering the development of new media.

The San Jose Mercury News (owned by Knight-Ridder), five dailies owned by Contra Costa Newspapers, and KPIX-TV, a CBS-owned and -operated station in San Francisco, are engaged in a Web site joint venture. The arrangement involves "a combination of resources designed to enhance all of the media, including the online offerings."[9] Although KPIX and the newspapers will trade advertising and each will consider the other as the preferred partner for marketing events, the deal is strictly content-driven. According to Jerry Eaton,

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[7] "Tribune Eyeing Miami Regional News Channel," *Multichannel News*, April 10, 1995, p. 16.
[8] We also include examples of cable television-newspaper cooperation because the potential for synergies between cable operators and newspapers is similar to that between television broadcasters and newspapers. Note that there is no regulatory prohibition on joint ownership of television stations and newspapers.
[9] "San Francisco's Latest Media Convergence," *Editor & Publisher*, April 25, 1998.

vice president and general manager of KPIX, "there really aren't revenue aspects to this deal." [10]

Five regional newspapers in Massachusetts, *The Lawrence Eagle Tribune*, *The Patriot Ledger*, *The Middlesex News*, *The Worcester Telegram*, and *The Evening Gazette*, as well as three nearby broadcast stations, WNEV-TV, WFSB-TV, and WLNE-TV, are part of a news association called the New England News Exchange. The New England News Exchange "provides a forum for the exchange of news and information among its members." [11]

The Sun-Sentinel and WPLG-TV have a news-sharing alliance in South Florida. Local news stories from *The Sun-Sentinel* are included five nights a week in WPLG's late newscast, with appearances by the newspaper's journalists. WPLG's three-day weather outlook appears daily in *The Sun-Sentinel*.[12] *The Sun-Sentinel* and WPLG-TV are also partners in a 50-50 joint venture 24-hour cable news and information channel called The South Florida Newschannel. "[P]rint journalists will be consulted and interviewed on the show [South Florida Newschannel]." [13]

The *News & Observer* in Raleigh, NC, and CBS-affiliate WRAL-TV have "teamed up to create ncstormtrack.com, a Web site for weather buffs. It includes

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[10] Ibid.

[11] "Two CBS-Network Affiliated Television Stations Join New England News Exchange," *PR Newswire*, November 15, 1983.

[12] "Sun-Sentinel and WPLG Expand In-Depth News Partnership," *PR Newswire*, March 18, 1996.

[13] "Newspapers: More Wired than You May Think, Cable News is Suddenly Hot in Florida," *NewsInc*, October 16, 1995.

stories and a large database of hurricane information from the newspaper along with video, audio and animation of hurricanes from the television station." [14]

The Lexington Herald-Leader and WKYT are engaged in the operation of Kentucky Connect, a Web site. They "share news resources and each promotes the Web site." [15]

The Miami-Herald and WTVJ, an NBC-owned and -operated station in Miami, have created a partnership for promotion and resource-sharing purposes. The partnership will involve cross-promotional activities, placement of a television camera in the *Miami Herald* newsroom to allow reporters to appear on NBC6 newscasts, expense-sharing on major news stories, conducting joint surveys, and creating an online news product in both English and Spanish.[16]

The Orlando Sentinel and Time Warner jointly operate Central Florida News 13 (CF13), a 24-hour local news cable channel. "The Sentinel and CF13 will remain separate news-gathering entities, but they will share resources and story leads."[17] The multimedia desk in the Sentinel's newsroom "will coordinate with the news editor at the paper and the assignment desk at the channel and will also be involved with the Sentinel's online news operation." [18] According to John Haile, editor-in-chief of *The Orlando Sentinel*, "We're going to try to eliminate duplication of resources – two reporters, one print, one broadcast,

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[14] "Online Newspapers as TV Stations; Study Predicts Video will Ultimately be King of the Web," *Editor & Publisher*, September 13, 1997, p. 35.
[15] Ibid.
[16] "Miami Herald, Local NBC Television Channel Team Up in Unique Partnership," *Miami Herald*, March 1, 1996.
[17] "Orlando/Cable TV: TW, 'Sentinel' Launch News Channel," *MediaWeek*, October 27, 1997.
[18] Ibid.

covering the same story. We're undergoing a change in what the company is – from a newspaper company to a multi-media corporation with Internet, TV and newspapers." [19]

The Orlando Sentinel and WFTN, the Cox-owned ABC affiliate in Orlando, also have a news-sharing arrangement. "In addition to supplying 20 minutes of news each day to Time Warner's full service network...[S]entinel reporters work on election coverage and daily features with journalists at WFTN." [20]

The Sarasota Herald Tribune and Comcast Cable are partners in a joint venture 24-hour news channel called Sarasota News Now (SNN). [21] SNN's "staff of 30 is integrated into the newsroom of the Herald-Tribune, with the same editors assigning print and broadcast journalists to their stories. Some print journalists will even read news on camera." [22]

The Atlanta Journal and Constitution and Prime Cable are engaged in producing a nightly half-hour of news called The Newspaper Channel. Cox, which owns the newspaper, has constructed a "full-scale TV studio" on one of the floors of its newsroom where the cable program is produced. According to Frank Heflin, the paper's Director of Telecommunications, the concept is to "use the resources of the newspaper and select a few stories each day which can be enhanced by video."[23]

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[19] "Time Warner, Tribune Align for 24-hour News," *MediaWeek*, August 4, 1997, p. 22.
[20] "Surviving TV – It's About Shelf Space," *Editor & Publisher*, July 6, 1996, p. 5.
[21] "Showdown in Florida," *Multichannel News*, January 22, 1996, p. 30A.
[22] "Newspapers: More Wired than You May Think, Cable News is Suddenly Hot in Florida," *NewsInc*, October 16, 1995.
[23] "News Finds Its Niche On Cable," *Broadcasting*, December 3, 1984, p. 66.

The Gwinnett Daily Post, which is launching a local news and information channel on Cablevision's system, and Northeast Gwinnett Cablevision are engaged in joint marketing efforts. Regular contributors from the print staff will appear on the local channel. The *Daily Post* will provide print advertising space for Cablevision, and will offer a free subscription to *The Gwinnett Daily Post* to each of Cablevision's subscribers. [24]

IV. The Efficiencies of Joint Ownership

A. Joint Ownership Versus Affiliation

The prior section indicates that some entities are developing new media joint ventures in an attempt to achieve some of the synergies from joint production between newspapers and television stations. Although joint ventures may be the best option available to these entities under the FCC's current ownership rules, they may be inefficient substitutes for common ownership. Joint ventures are less likely to be efficient substitutes for common ownership when there is substantial uncertainty about the value of the venture, as is true for the new media ventures being formed by newspapers and television stations. Given the inherent limitations of joint ventures, we would expect the efficiency benefits from joint production to be higher when firms are allowed to choose whether to develop new media through common ownership or through joint ventures. [25]

The degree of joint ownership required for firms to achieve efficiencies from joint production is a complex issue that depends on a number of factors.

[24] "Ga. System, Local Paper Team Up to Launch News Channel," *Multichannel News*, February 10, 1997, p. 26.
[25] The point is that the firms would choose the most efficient alternative if free to do so.

Although it is not possible to definitively answer the question of whether joint ventures are able to realize some or all of the synergies achieved through joint ownership, the economics literature does provide several reasons why joint ventures may be less efficient. This section describes these possible inefficiencies in the context of the information creation and dissemination businesses conducted by newspapers and television stations.

B. Incentive Problems in Joint Ventures

A joint venture is an arrangement between two or more independent firms to combine resources to produce a product or service. Examples include many of the cooperative arrangements described in Section III.C. A joint venture confronts three classes of issues that can hinder its ability to achieve efficient joint production: (1) the costs of reaching agreement; (2) incentives to withhold private information; and (3) incentives to take actions that are not in the best interests of the joint venture.

First, participants in a joint venture must agree on a common course of action. Even if it is clear that all participants have something to gain from cooperation, they may not all agree on the best course of action. This can lead to delays, or even stalemates, as each participant attempts to influence the venture in a way that it finds more favorable.

More generally, contracts among joint venturers are costly to negotiate and write. Among the questions that must be answered are: How will resources be shared between participants' core businesses and the joint venture? How will costs and revenues be shared? How will disputes be resolved?

When the value of the joint venture is uncertain, which is typically the case with new media, the participants may need to specify conditions for a broad range of contingencies. Moreover, the venturers will typically find it necessary to erect a complex array of safeguards to ensure against opportunistic behavior -- behavior that is beneficial to an individual participant but harmful to the venture as a whole -- and this is costly when the number of contingencies and the scope for opportunism are large.[26]

A second problem faced by the joint venture arises when the participants have private information about the value of their own productive inputs into the venture, or the value of the jointly produced product. For example, a newspaper that offers news and advertising service on its own Web page likely has better information about the benefits and costs of an online information service than a television station that uses its Web page strictly to promote its television station. Similarly, the television station likely has a better understanding of the costs of creating video content than does the newspaper. In this situation, the newspaper has an incentive to understate the value of combining video and print on the Web page in an attempt to obtain a greater share of the profits, and the television station has an incentive to over-represent the cost of supplying the video content for similar reasons.

[26] Oliver Williamson describes three types of safeguards commonly employed in complex contracts. First, the parties may specify a penalty and/or "severance" payment for premature termination of the venture. Second, the parties may specify a governance structure for resolving disputes. Third, the parties may specify "trading regularities" that support and signal their intentions, such as reciprocity requirements. See O.E. Williamson, *The Economic Institutions of Capitalism*, The Free Press, 1985, p. 34.

The incentive for joint venture participants to misrepresent private information is well known from the economics literature on agency relationships and bargaining under incomplete information.[27] As that literature indicates, misrepresentation is not without risk, because it may lead to the perception that there are no gains from trade when potential benefits do exist. However, each individual venturer prefers to take this risk in order to increase its chances of capturing a larger share of the benefits from joint operation. In the worst case, misrepresentation results in failure to reach any agreement at all.[28] In less extreme cases, misrepresentation results in an alliance with a more limited scope than efficiency would dictate.[29]

The third general problem faced by a joint venture is how to align the incentives of each participant with the best interests of the joint venture. The easiest way to see this problem is with a simple example. Suppose that a newspaper and television station form a joint venture to create a Web page that will offer integrated print and video information online supported by advertising revenues. The venture operates as a profit center, paying each partner the cost of the content it provides and distributing half of the advertising profits to each

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[27] In the language of this literature, each firm requires "information rents" for it to be willing to reveal its private information. The problem then arises that the information rents may be larger than the potential gains from trade, in which case the potential gains are left unexploited. A useful introduction to the literature on exchange under incomplete information is contained in P. Milgrom and J. Roberts, *Economics, Organization, and Management,* Prentice Hall, 1992; see especially Chapter 5.

[28] An example of the difficulty may be the Knight-Ridder experience with *The San Jose Mercury News*, where we understand that negotiations extended over a long period of time before an agreement was finally reached with KPIX earlier this year.

[29] For example, we understand that the Knight-Ridder alliance is focused primarily on cross-promotion without significant integration of content.

partner.[30] Under this type of arrangement, are each partner's incentives aligned with the joint venture? That is, will each partner take actions that maximize the profits of the venture?

The answer is likely to be no, for reasons that are well known in the economics literature. The general problem is this: If one partner "shirks" -- e.g., by purchasing lower-quality equipment, assigning its best people to other projects, or simply substituting leisure for work -- it receives all the benefits of shirking but bears only half the cost.[31] Thus, unless the joint venture contract specifies all of the costly decisions that each participant makes on an ongoing basis in providing inputs to the joint venture, and thereby prevents such shirking, each participant will have an incentive to under-provide quality or other productive inputs to the venture.[32]

The shirking problem exists even when the venturers' core businesses are unrelated to the business of the joint venture, so long as each of the participants receives a smaller share of the profits of the joint venture than the gains it receives by shirking. However, the problem is likely to be even worse when the core businesses provide services that compete either for resources or in the output market with the joint venture. For example, the television station partner

[30] The assumed 50-50 division of profits is arbitrary. Any division of the profits would allow us to make the points that follow.

[31] The meaning of "shirk" in this context is synonymous with "moral hazard" as that term is used in the economics literature. Moral hazard refers to post-contractual opportunism that arises when actions that have efficiency consequences cannot be specified in a contract so that the person taking them can choose to pursue his own private interests.

[32] A *complete contract* would specify each partner's input requirements for every possible contingency and, if enforceable, would eliminate the shirking problem. The shirking problem arises because it would be prohibitively costly to specify and enforce a complete contract, so that contracts are typically *incomplete*.

may spend the bulk of its production time on its television operations even after its Web page joint venture develops substantial advertising revenues because the partner receives only a fraction of the profits received from advertising on the Web page. The participants may also be reluctant to cannibalize their advertising revenues in their core businesses, leading them to shirk on quality and misrepresent their costs (and/or benefits) or both to the joint venture.

The inefficiencies of joint ventures that arise from incentives to shirk are exacerbated when the benefits of the venture are highly uncertain and one or more of the participants in the venture is risk-averse.[33] Under these circumstances, the design of the joint venture contract is complicated by the participants' desire for insurance along with their goal to minimize shirking. For example, suppose that the newspaper owner is risk-averse. Providing insurance to the owner of the newspaper requires that the television station receive most of the gains and bear most of the losses of the joint venture. However, a contract that gives most of the gains and losses to the television station provides little incentive for the newspaper to focus productive effort on the joint venture.

By describing the difficulties involved in forming successful joint ventures, we do not mean to suggest that alliances between newspapers and television stations do not provide benefits for consumers.[34] Numerous such alliances already exist, as described above. Our point is that joint ventures face difficult

[33] An example of a "risk-averse" individual is one who prefers to receive $100 with complete certainty rather than $50 or $150 with equal likelihood.

[34] There are mechanisms that help resolve some of the incentive problems raised by divergent interests and incomplete information among joint venture partners. For example, a firm may increase the effort devoted to the joint venture in order to develop a reputation as a reliable partner and thereby keep a profitable venture from dissolving.

incentive issues that can hinder efficient joint production. We now turn to an explanation of how joint ownership helps resolve some of these issues.

C. Joint Ownership as an Alternative to Joint Ventures

The previous subsection identified three problems confronted by a joint venture: (1) the costs of reaching agreement; (2) incentives to withhold private information; and (3) incentives to take actions that are not in the best interests of the joint venture. Joint ownership has the potential to mitigate each of these problems.

Joint ownership reduces or eliminates many of the costs of reaching agreement on a common course of action. The very nature of a firm is that of a hierarchical organization in which decisionmaking and authority are delegated to specific individuals. In the case of Chronicle Publishing, for example, senior management has determined that substantial synergies can be achieved by intermingling content developed separately by *The San Francisco Chronicle*, KRON-TV, and BayTV; by simultaneously developing certain stories with staff from the *Chronicle*, KRON-TV, and BayTV; by putting newspaper reporters on KRON-TV and BayTV; and by creating staffs unique to each new media venture – The Gate and BayTV – that management has decided to develop. Importantly, senior management can direct the staffs of the newspaper and the television station to cooperate in ways that benefit the entire company, even if each would prefer to take actions that benefit only its own operation. In effect, agreement on the scope of joint production is reached cheaply because management can make it happen. Dispute resolution is also quite naturally handled by the structure of authority that is already in place.[35]

The problem of withholding private information is also likely to be reduced within the firm because it is easier for key decisionmakers to obtain the information they need.[36] For example, decisionmakers can observe more carefully and more frequently the success of each division, and the financial statements of each division are informative about which strategies have and have not been successful. At Chronicle Publishing, the newspaper, television, cable, and online operations produce their own financial reports, making such information available to senior management.

More fundamentally, senior management is free to monitor the activities of each division. It would be unusual for two separate companies, especially ones that compete, to be willing to allow such unrestricted access to their operations because they would be concerned that sharing sensitive business information with each other could give their rivals an advantage.

Information exchange at Chronicle Publishing is also accomplished through the regular meetings held between staff members of both the newspaper and television station to discuss and plan ways to exploit synergies among the *Chronicle*, KRON-TV, Bay TV, and The Gate. Although joint venture participants

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[35] We do not mean to imply that firms do not face some of the same bargaining issues internally that partners to a joint venture confront. Our point is that a firm has governance structures already in place to deal with many of the issues that joint venture participants must specify in a complex contract.

[36] It is also possible that the incentives for participants to reveal private information are greater in a firm than in a joint venture. This would be true, for example, if the party with the information believes that he or she is more likely than joint venture participants to be compensated for revealing information that benefits the firm.

can also arrange such meetings, there is no central authority (beyond the incomplete joint venture contract) to specify what information should be shared.

The third difficulty confronted by a joint venture -- aligning the incentives of the participants with those of the overall venture -- may also be attenuated when the venturers comprise a single firm. A key reason that the incentives of joint venture participants are not perfectly aligned is that it is prohibitively costly to specify in the joint venture contract all the actions that each participant will take. This leaves room for opportunism, which makes the venture less efficient than it would be if all actions were contractible. Within a firm, by contrast, it may be easier for a central authority to monitor the actions performed in different divisions in developing the joint product. For example, it may be easier for a manager overseeing the production of The Gate to monitor shirking by members of *The San Francisco Chronicle* and the KRON-TV staffs than it would be for a manager of a joint venture to monitor the staffs of the joint venture participants.[37]

A final set of advantages a firm has over a joint venture flows from the relationships that can develop between employees and their peers and between employees and the firm. Peer groups can yield what Oliver Williamson calls "associational gains."[38] The idea is that some individuals perform better when

[37] Of course, a firm confronts its own issues in attempting to encourage employees to take actions that are in the best interests of the company. For example, a fixed salary with no bonus tied to the performance of the firm may provide little incentive for an employee to undertake effort that cannot be monitored by the owners of the firm. On the other hand, giving the ownership a greater share of any increase in profits (after fixed salaries are paid) provides the ownership with an incentive to work harder, both in making its own productive decisions and in monitoring employees. A useful discussion of these tradeoffs can be found in B. Holmstrom and J. Tirole, "The Theory of the Firm," in R. Schmalensee and R. Willig, eds., *Handbook of Industrial Organization, Volume 1*, North Holland, New York, pp. 65-78.

[38] See Oliver Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications*, The Free Press, New York, 1975, p. 44.

they are members of a group because they feel a responsibility to behave as "team players" working on behalf of that group. To the extent such groups are easier to form within a firm than within a joint venture, all three of the problems we have identified -- disagreement, private information, and shirking -- may be reduced.

Williamson also notes that a firm, as part of its internal incentive system, will often promote employees from within rather than hire from the outside to fill more senior positions.[39] It is likely to be easier for a firm than for a joint venture to use internal promotion as an incentive device for two reasons. First, firms tend to have longer histories during which more precise understandings develop between employees and management over the requirements for promotion. Second, there is more scope for disagreement within a joint venture about when promotions should occur, who should be promoted, and where salaries should be pegged.

V. Conclusion

Determining the relative merits of carrying out joint production within a firm or through a joint venture, and thus the optimal degree of joint ownership, is a complicated question that cannot be answered in the abstract. It is clear, however, from the trend toward increased cooperation between newspapers and television stations that their owners perceive significant benefits from coordinating operations in the provision of new media. Unfortunately, this experience does not provide a basis for determining the optimal degree of cross-

[39] Ibid, p. 77.

ownership because entities that were not jointly owned when the cross-ownership rules were established must employ the joint venture approach.

It is clear, nonetheless, that given the potential for significant benefits from joint production, a blanket prohibition against cross-ownership between newspapers and television stations is not warranted. The appropriate treatment must balance the potential efficiencies from cross-ownership against the potential for anticompetitive effects. Such a comparison should be done, in our view, on a case-by-case basis, accounting for factors specific to the market in which the newspaper and television station compete. We believe that the efficiency benefits of such combinations are likely to dominate in many of the larger markets, where competitive concerns are likely to be small.

C

Exhibit C

ON FILE AT THE FCC